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CENTRAL INTELLIGENCE AGENCY
OFFICE OF CURRENT INTELLIGENCE

DAILY DIGEST

JUL 21 1951

Date: _____

- NOTE: 1. This summary of significant reports has been prepared primarily for the internal use of the Office of Current Intelligence. It does not represent a complete coverage of all current reports in CIA or in the Office of Current Intelligence.
2. Comments represent the preliminary views of the Office of Current Intelligence.
3. Marginal letter indications are defined as follows:
- "A" - items indicating Soviet-Communist intentions or capabilities
 - "B" - important regional developments not necessarily related to Soviet/Communist intentions or capabilities
 - "C" - other information indicating trends and potential developments

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SECTION 1 (SOVIET)

"A" USSR. Soviet Bloc to Offer Grain in East-West Trade Meeting. Evidence of Soviet "serious intentions" toward UN technical discussions on improving East-West trade should be seen in the high level character of the Soviet decision to attend [REDACTED]

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Soviet participants would be of very high rank in the Ministry of Foreign Trade. The US delegation to the Economic Commission for Europe consider that the Soviet bloc at the 20 August meeting will probably make substantial grain and perhaps timber offers demanding strategic commodities in return. [REDACTED]

[REDACTED] the USSR is in a position to sell Western Europe somewhat more than one and a half million tons of coarse grains each of the next five years against "appropriate counter deliveries." Information reaching the Secretariat suggests that Satellite harvests are very good and that Rumania, for example, may be able to export a million tons of wheat this year. [REDACTED] COMMENT: Substantial Soviet offerings in ECE would reflect the more effective Western export control program. In recent bilateral negotiations the Soviet orbit has been less able to obtain desired strategic commodities because of wider application of US control lists and arrangements for alternative sources of supply for some goods needed from the Soviet bloc. If unable to obtain desired commodities through multilateral negotiations, the Soviet orbit could utilize this meeting for propaganda against Western rearmament, as their spokesmen did the ECE meeting during June, or for an attempt to split Western policies on export control.

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"B" USSR Jets Possibly of German Design. Ernest Heinkel erstwhile German aircraft builder is satisfied that the latest Soviet jet fighters were designed by aerodynamics expert Siegfried Guenther, once chief of the planning department at Heinkel's aircraft factory. In a recent interview Heinkel asserted that the new Soviet jet types show design forms similar to those used by Guenther when he built planes to oppose the Allies in World War II. According to Heinkel, Guenther worked for an American organization in Landsberg in 1945 and later went to Berlin where he was reportedly arrested by the Soviets and deported with his wife to the USSR. Guenther is now thought to be working at the Air Planning Institute in Kalinin. COMMENT: Although Siegfried Guenther is believed to be technically competent to have designed latest type Soviet jet fighters, it is considered highly improbable that the Soviets requisitioned his services in this capacity.

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"B" Soviets Plan Increased School Aid. With the announced aim of assuring compulsory 7-year schooling throughout the USSR, local Party, trade union and Komsomol organizations are warned that considerable work is still necessary if last year's errors are to be avoided. Both Party and Government are reported to be doing everything possible to assure the successful functioning of Soviet schools which this year will receive "tens of thousands" of new teachers and some 166 million additional textbooks. These textbooks are supposed to be available everywhere to the schools by 1 August, although educational organizations and the printing trade of the Ukrainian, Uzbek, and Moldavian Republics are said to be particularly backward in this respect. Serious drawbacks in textbook publishing also reportedly exist in the Dagestan, Udmurt, Mari, and Mordovian areas. Great importance is being attached to a "well-compiled" curriculum for the school year, but recently serious setbacks have been noticed such as delay by the Ministry of Education in preparing its curriculum for the Russian language. Last year "extensive" work was said to have been done by way of changing the teaching of language on the basis of Stalin's linguistic work. COMMENT: The Soviets are fond of parading school statistics in attempting to show that popular education in the USSR is a vivid example of the "superiority" of the Communist regime over its capitalist rival.

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"A" EASTERN EUROPE. YUGOSLAVIA. Tito Government Desires Continuation of UN General Assembly. The Yugoslav Government has asked the US, through Yugoslav UN delegate Bebler, to support continuation of the UN General Assembly because of Yugoslav concern about future Soviet aggressive moves. Bebler indicated that he did not intend to discuss this matter widely with other delegations apparently to avoid spreading the Yugoslav Government's apprehension. According to Bebler the Yugoslav Government sees grave danger of general war following any breakdown of Korean armistice talks.

Referring to Soviet problems in the Satellites, Bebler claimed that Bulgaria unquestionably presented the area of greatest difficulty for the USSR. Communist control of Albania was largely confined to urban areas with "virtual anarchy" throughout the country.


COMMENT: No current evidence is available of a Soviet/Satellite intention to attack Yugoslavia. The military capabilities of the Balkan Satellites have reached such a stage, however, that aggression against Yugoslavia could be launched with little or no prior warning. On 13 July Tito in a public address warned against any false optimism

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regarding Korean armistice negotiations. He indicated that the situation on Yugoslavia's borders had grown worse while the Kremlin was making peaceful gestures in Korea.



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SECTION 2 (EASTERN)

"B" MIDDLE EAST. Instability Heightened By Assassination of King Abdullah. The assassination of King Abdullah of Jordan by a terrorist reportedly in contact with the former Grand Mufti of Jerusalem, removes a resolute anti-Communist, pro-Western ruler from the Arab world. The end of Abdullah's influence will most immediately and directly affect the British, who rely on the British-trained, officered, and financed Arab Legion (the army of Jordan) as the only competent and dependable Arab army in the Near East. The confusion and possible disorders which may result can only benefit the anti-Western elements in the Near East.

The sixty-nine year old king had many enemies both in the neighboring Arab states and in Jordan. Distrust and resentment of him stemmed from his apparent willingness to try to achieve a treaty with Israel and from his sporadic attempts, in conjunction with his nephew the Regent of Iraq, to establish a Greater Syria, consisting of Jordan, Iraq, and Syria. The former Mufti, currently in Lebanon, is strongly anti-British. He had attempted to set up an independent Arab government in Palestine after the creation of Israel and has violently opposed the incorporation of the major part of Arab Palestine into Jordan. Riad al-Solh, the former Prime Minister of Lebanon who was assassinated in Amman on 16 July, was a contributor to the former Mufti's funds. Unconfirmed rumors that a carload of Lebanese gunmen had been stopped at the Syrian border on their way to Jordan to avenge the death of Solh creates the additional possibility of a connection between the two assassinations.

Prince Naif, the king's second son has been named temporary regent.

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"C" SAUDI ARABIA. Financial Problems May Damage Saudi Arabian-ARAMCO Relations. Annoyance over the Arabian-American Oil Company's (ARAMCO) refusal to advance \$45 million of the 1952 tax payments may induce the Finance Minister to report to King Ibn Saud that the company's attitude is one of "non-cooperation" and "withholding" funds already earned by Saudi Arabia. The Finance Minister claims that Saudi Arabia is entitled to \$100 million in royalties and income tax from the current year's operations of the oil company. He is attempting to establish the point that Saudi Arabia and the company are partners sharing equally in the company's profits as earned. However, the December 1950 oil agreement clearly states that Saudi Arabia's

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share comes largely from taxes which are payable the year following the earnings on which they are based. COMMENT: ARAMCO officials were encouraged about the effect of their refusal to grant the tax advance when Crown Prince Saud, who is taking an increasingly responsible role in the government, agreed with their decision. However, the attitude of the Finance Minister, whose personal position is at stake, and the refusal of any other responsible official to limit governmental expenditures may decrease the life expectancy of the oil agreement signed in December 1950.

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"C" CEYLON. Majority Party In Parliament Losing Ground. Several defections have taken place in the United National Party (UNP) of Ceylon following the resignation from the Cabinet of S. W. Bandaranaike, Minister of Health and Local Government, leader of the House and vice-president of the UNP. Five UNP members, including two Parliamentary secretaries, have followed him to the opposition side in the House, leaving the UNP a scant majority of 54-47.

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COMMENT: The Communists form the largest group in the parliamentary opposition, holding 20 seats in the House. Bandaranaike, whose consuming desire is to be the next Prime Minister of Ceylon, is reportedly willing to make a deal with any group which would further his ends. His defection from the UNP may therefore strengthen the left and increase its threat to the present government. The Communists are divided amongst themselves, however, and have shown no real signs of producing a united front.

"B" INDONESIA. Foreign Ministry May Object to Increased Chinese Embassy Staff. Foreign Affairs Minister Subardjo states that his government regards as an "insult" the arrival without prior clearance with Indonesia of twenty additional Chinese Embassy staff members. Subardjo told Ambassador Cochran that Peiping had not requested diplomatic visas for these persons; the Chinese Ambassador in Djakarta had merely communicated with the Indonesian Foreign Office announcing the arrival by ship on 22 July of twenty additional staff members whose names and positions would be revealed upon arrival. Subardjo asked Cochran what the Indonesian Government should

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do. Cochran asked whether there was any agreement with the Chinese as to the numerical size of their Embassy. Subardjo replied that there was no agreement but that his government did not want to admit so large an increment. At the conclusion of their interview, Subardjo said it would be Indonesia's decision to return the group to China "even if it means a diplomatic incident."

Several days ago, Subardjo told Cochran that Indonesia originally had approved only a 15-member staff for the Chinese Embassy. The twenty additional members, however, will bring to a total of 80 the Chinese Communist Embassy staff in Djakarta. The Indonesian Government is probably more irritated over the diplomatic slight committed by the Chinese Communists than it is worried over the prospect of increased Chinese Communist activity.

COMMENT:

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"A" CHINA. Soviet Long-Range Bombers Reported in Manchuria. A unit of 14 TU-4 four-engine bombers has been "identified" at Ch'angch'un in Manchuria by Chinese Nationalist Intelligence. Source states that this unit is under the Soviet Air Force, not the Chinese Communists. [redacted] although unable to evaluate the original source, considers this report "probable."

COMMENT: The airfield at Ch'angch'un has a paved 8,000-foot runway, long enough to handle TU-4's which are similar to the US B-29.

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"B" CHINA. US Oil Properties in Shanghai Seized. Peiping radio on 21 July announced the requisitioning "in the interests of the nation" of assets of US oil companies in Shanghai. The Communists promise payment for all oil stocks requisitioned. The companies involved are the Vacuum Oil Company, Caltex Oil Company and the Cathay Oil Company. The announcement stated that company offices would not be taken over. [REDACTED]

[REDACTED] COMMENT: The oil companies have not imported oil since the Communist takeover of Shanghai over two years ago, and have been forced to sell their stocks to maintain operations as ordered by local authorities. US oil companies, along with all other US assets in China, were placed "under control" of the Chinese Communists in December 1950. The US companies have tried to liquidate and remove their US employees from Shanghai for some time. This action may foreshadow similar requisitioning of other US property in China.

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"B" KOREA. Enemy Strength May be Much Greater Than Now Accepted. In addition to enemy units currently accepted in Korea, Far East Command's Intelligence considers that the 20th Chinese Communist Army Group, composed of 3-4 armies with a strength of 105-140,000 troops, "probably" is also in Korea. "Possibly" in Korea are at least five additional Chinese Communist armies, totaling 175,000, and three new North Korean Corps of at least 30,000 men. [REDACTED] COMMENT: The strength of enemy units currently accepted in Korea totals 493,000, of which 265,000 are Chinese Communists. A recent FECOM estimate that the enemy logistically could now support a 5-7 day 72 division offensive presumably is based on consideration that these units "probably" or "possibly" in Korea might participate.

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"C" South Korea Makes Progress in Balancing Economy. Ambassador Muccio reports that the ROK has made marked progress in balancing income and expenditures and in controlling bank credit. In the past two months, expenditures of UN forces, which far exceed the meager collections from the sale of imported goods, have constituted the sole inflationary pressure of any significance. Pointing out that the impoverished and disrupted Korean economy cannot be expected to absorb the local currency costs of carrying on an extended war, Muccio again urges corrective action to increase the supply of imported goods. [REDACTED]

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SECTION 3 (WESTERN)

- "B" GERMANY. No Military Airlift Planned Now As Berlin Exports Remain Blocked. The trade impasse continues in Berlin, with the USSR showing no sign of permitting the free flow of Berlin exports. In retaliation, the West is withholding approval of the interzonal trade agreement. In counterretaliation, the East German government has stopped coal supplies to West Berlin and is threatening to cut off electric power deliveries. To alleviate the hardship inflicted on West Berlin manufacturers, US authorities are considering the use of additional commercial airliners, on a small scale, to move most of the backlogged goods out of Berlin. In the event this measure proves inadequate, a military airlift can be started, though such a step is considered too spectacular and far-reaching in its implications for the moment. The Berlin Senate held an extraordinary session on 18 July and talked in terms of "preparing for difficulties," a new blockade, and the substitution of Berlin for Korea as a target of Soviet activities. The spirit of resistance among the Berliners was evident at the meeting. Some Berlin leaders, including Mayor Reuter, feel that the present situation will be alleviated only when Berlin acquires a guaranteed "open corridor" to the West.
- "C" FRANCE. Precarious Coalition in Prospect. The US Embassy in Paris does not anticipate an early solution of the party differences which are preventing the formation of a government. It still appears certain that the next government will be Centrist, without Gaullist support, and based on a compromise among the heterogeneous partners who campaigned together against both Communists and Gaullists. Nevertheless, sentiment among the Socialists not to participate is increasing, partly because non-Gaullist Rightists have recently voted with the Gaullists to deprive Socialists of Assembly chairmanships. The thorniest issue dividing the middle-of-the-road parties is that of state aid to church schools. A compromise, however, appears possible on the Socialist demand for wage increases geared automatically to price rises. A few prominent leaders believe that the only government possible at this time is one including the Gaullists and excluding the Socialists. COMMENT: Inasmuch as a government must be formed before the Assembly can adjourn for its annual vacation in August, it is most unlikely that the next government can be based on a sound compromise on the church-school question or even on the wage issue. Hence for at least the next two months it can be expected that France will be governed by a weak middle-of-the-road coalition. Without the Socialists, it will be a minority Government; with them, it will be committed only to temporary and superficial compromises. 25X1
- "B" ITALY. Government Controls on Shipment of Strategic Materials to Communist China. The Italian observer at the UN reports that his government has prohibited all state-owned shipping companies, comprising 85% of Italian shipping, from loading strategic materials bound to Communist China and North Korea in domestic and foreign ports. The Italian Government believes that it would encounter great

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difficulty in controlling privately owned Italian ships and that more effective measures in this respect could be taken through COCOM. [redacted]

[redacted] COMMENT: The action taken by the Italian Government and the measures recommended for COCOM will not affect the considerable amount of strategic materials transshipped or exported from Italy in ships of other nations and destined for Communist controlled areas. 25X1

"B" UNITED KINGDOM. Britain Still Awaiting Developments as Abadan Situation Deteriorates. Production in the oil refinery at Abadan has been reduced from the normal output of 500,000 barrels per day to about 70,000, according to the British Ambassador in Teheran. Only one of the six fields is now producing and the British staff both at the refinery and in the oil fields has been reduced. Communist agitators are active in the oil fields and discipline among the workers is virtually non-existent. The living conditions of the 1,650 Britishers who still remain are not conducive to their staying much longer. Meanwhile, the British Chiefs of Staff in London have rejected the recommendation of the Commanders-in-Chief Middle East to mount emergency operations before 31 July, and place British troops and supporting arms in Abadan to cover evacuation of British personnel. 25X1 The Chiefs believe that the initiative to mount any of the several military plans already prepared must come from the Cabinet. [redacted]

[redacted] COMMENT: Pending the outcome of the Harriman mission, the UK will probably not undertake any new steps which might worsen the present situation. The UK considers that unprovoked implementation of military operations would be universally regarded as an aggressive act. The Foreign Office plan for the "phased withdrawal" of British personnel from Iran is still being considered by the Cabinet. 25X1

"C" Use of African Troops in Malaya May Signify Opening Phase of Tapping Colonial Manpower. Two battalions of the King's African Rifles are to sail for Malaya in January 1952 to release British units for employment elsewhere. This action stems from a Cabinet Defense Committee decision in May. US Embassy London comments that the plan is particularly significant as it may prove an opening wedge for further use of colonial troops to help relieve the strain now placed on the British Army in fulfilling commitments. 25X1

[redacted] COMMENT: The recall of Indian troops from the Middle and Far East in 1947, accompanied by the post-war reduction of the British Army, made even the peacetime maintenance of UK overseas garrisons a difficult problem. This was aggravated by the additional forces needed in the Malayan campaign, Hong Kong, and the Korean war. Although expansion of the armed services is part of the British rearmament program, there are definite manpower limits to a population of about fifty million. The Gurkha mercenaries in British service in the Far East are also limited in numbers. If the use of these native African troops proves successful in Malaya, it will set a new pattern for the use of Colonials and will carry out the views of many in the House of Commons who have been urging greater employment of colonial manpower. 25X1

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"B" UNITED KINGDOM/IRAN. Oil Company Dividends May be Withheld. The Anglo-Iranian Oil Company probably will withhold £1.6 million, the Iranian share of the company's forthcoming 1950 profits distribution dividend, if there is "no improvement in the Iranian atmosphere", but may use it as a "sweetener" if there is any progress towards a settlement of the dispute. [REDACTED] COMMENT: The AIOC excuse for withholding payment would be that Iran has already received 17 million advance royalties this year, and that this includes a share of 1950 profits. The UK continues to proceed on the assumption that the application of financial and other forms of pressure in the present circumstances is the best means of eventually bringing the Iranians to terms. The British Government believes that a more conciliatory policy would be regarded as a sign of weakness, both by the Iranians and by domestic UK critics. 25X1

"B" NIGERIA. Top Communist Suspect Arrested. Nduka Eze, prominent labor leader and believed to be the top Communist in Nigeria, has been arrested for using a fraudulent passport and embezzlement of union funds while attempting to cross the border into French Dahomey enroute to the USSR. [REDACTED] COMMENT: British handling of Eze, the most troublesome native agitator in Nigeria, is especially important during the coming months when the new constitution bringing substantial self-government will be put into effect. However, experience in neighboring Gold Coast indicates that the temporary incarceration does not necessarily terminate the influence of such a dynamic individual. 25X1

"C" ARGENTINA. Misunderstanding over Proposed Meeting between President Peron and "Trusted" Representative of President Truman. On 17 July a high Argentine official called at the US Embassy "to discuss President Truman's desire to arrange an informal meeting between US Ambassador Bunker and President Peron". A US Embassy officer informed the Argentine official of his understanding that President Peron had desired a meeting. Both the US official and the Argentine agreed that a misunderstanding existed and that the matter should be held in abeyance "to see what happened". [REDACTED] 25X1

"C" BOLIVIA. Joint US-Bolivian Tin Negotiations Continue. Bolivia has accepted the US RFC's interim tin purchase offer of US \$1.12 per pound for the next 30 days, with a retroactive adjustment. The Bolivians--tin producers as well as government officials--are relying on the good faith of the US in fixing the final tin price on the basis of the figures given RFC men recently here." [REDACTED] COMMENT: The economy of Bolivia rests primarily on its income from tin exports to the US and Bolivians feel that the present US-controlled price of \$1.06 per pound is "unfair" and does not cover the actual cost of production of much of the ore. At the present time the Bolivian treasury is depleted, and the Junta's first objective is to improve economic conditions. If the economy continues to deteriorate, the government will be severely criticized by the Nationalist Revolutionary Movement. [REDACTED] 25X1

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SECTION 2 (EASTERN)

"B" IRAN. France Hinders Iranian Efforts to Obtain Oil Experts. The Iranian Embassy in Paris has officially approached the French Petroleum Institute and French petroleum engineers concerning employment in Iran's oil industry, according to one of the Institute's officials. The French Foreign Office, however, has advised all interested French individuals and agencies that their acceptance of employment by Iran would be contrary to the policy of the French Government. [REDACTED]

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[REDACTED] COMMENT: No major Western European or US oil company has offered to provide Iran with technicians for her oil industry. The Soviet Oil Administration of Austria, however, has reportedly offered Iran 150 technicians and two Soviet-controlled Austrian distributors are reported to be exploring opportunities for selling Iranian oil. [REDACTED]

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"B" Financial Crisis Approaches. US Embassy Tehran estimates that the Iranian budgetary deficit may well reach 460 million rials (\$14,370,000) a month, if the present impasse in the oil dispute is not broken. The deficit (in million rials) would be broken down as follows:

- (1) Normal pre-nationalization deficit - 100
- (2) Plan Organization responsibilities - 100
- (3) AIOC payroll - 200; loss of profit on exchange - 60.

[REDACTED] COMMENT: On the basis of this estimate, the budgetary deficit would reach approximately 5.5 billion rials (\$171,875,000) a year, over half the amount of Iran's total annual budget of 8 to 10 billion rials. Iran's foreign exchange deficit also appears likely to increase to the extent of \$48 - \$60 million a year. These figures illustrate the magnitude of Iran's current financial problems.

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"A" NEPAL. Communist China Desires to Open Embassy in Kathmandu. Communist China has been pressing the Government of Nepal for permission to open an Embassy in Kathmandu, according to the Nepalese Consul General in Calcutta. [redacted] COMMENT: The Chinese have been active in opening both diplomatic and cultural offices in India and Burma. It is noteworthy that the half dozen branches of the Sino-Indian Friendship Association have been established in regions where Communist agitation and political unrest have been considerable within the past year. [redacted] Kathmandu is no exception to this rule.

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"C" KOREA. ROK Concerned over Japanese Treaty Provisions. The ROK Government is concerned over its exclusion from participation in the Japanese Peace Treaty, and particularly over Art. 4 of the draft. The ROK Prime Minister told a US Embassy representative that Art. 4 was being interpreted by his government as reopening the whole question of Japanese-vested property, and that the government's concern on this point was shared by the National Assembly which was becoming more and more aroused. The Embassy comments that it was unfortunate that this cause for alarm arose at this time when the ROK feels it is being left in the lurch by the cease-fire proposals. [redacted] COMMENT: Art. 4 of the draft treaty of peace with Japan provides that the disposition of the property of Japan and its nationals in areas over which Japan is renouncing sovereignty, would be subject to negotiations between Japan and the authorities presently administering the areas. The ROK had assumed that the treaty would confirm the transfer of Japanese property in Korea to the ROK, and they fear that former Japanese owners may now attempt to repossess their property or force the South Korean Government to make compensation.

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